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**YOUR OWN  
BUSINESS  
WHY KEEP  
RECORDS?**



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# **YOUR OWN BUSINESS WHY KEEP RECORDS?**

An introduction  
to basic business records  
for small businesses



This booklet is intended to help you keep adequate records which will aid you in your day to day business activities. If you have problems understanding parts of this booklet or if you have a problem which is not dealt with in this booklet you should seek outside help from one of the following:

- (1) Your Band Manager
  - (2) The nearest Indian Affairs Office or if you live in the Territories, your nearest Territorial Government Office.
  - (3) Your local Bank Manager
  - (4) A Professional Accountant.
  - (5) Other businessmen.
- 



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# INTRODUCTION

Businessmen make important decisions every day. Before making a decision a businessman may ask himself some very simple questions such as: "Is my business profitable?" "How much money do I have?" and so on.

The businessman should not have to guess. With a neat and simple set of records, the answers should be at his fingertips. Trying to run a business without good records is like trying to shoot rapids in a canoe without a paddle.

Record keeping is not difficult. Start off by keeping documents such as purchase and sales invoices and other evidence of any receipt or payment of cash. Write down this business information while it's still fresh in your mind so that you can answer questions like these:

- (1) How much money have I received and from where?
- (2) How much money have I spent and for what?
- (3) How much money do I have?
- (4) How much money do other people owe my business?
- (5) How much money does my business owe other people?

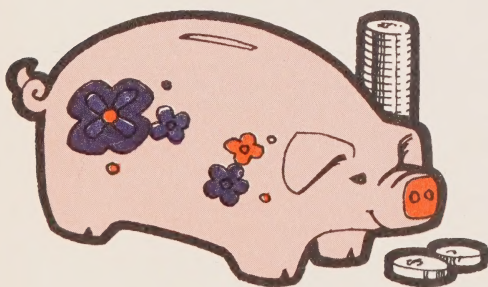
A good set of records consists of no more than keeping track of business transactions regularly and in a neat and orderly manner. Record keeping will keep you informed on your business progress and should help you improve your decision-making on sales, pro-

duction or service and financial matters and become a more successful businessman.

One of the most useful aids that a businessman can have is a bank account. Not only is it the safest place to keep your business money but, in addition, records maintained by a bank provide you with information which will make your own record keeping much easier. It is wise to deposit all of your receipts and make all payments by cheque including living expenses or other non-business expenses.

Operating a bank account is very simple. Any bank in your area will help you open an account and will show you how to make deposits, withdraw money and issue cheques.

The way of keeping records described in this booklet is intended for use by the small businessman. Its operation as you will see is built around the use of a bank account. Although there is not detailed procedure here for using a cash register, anyone with many daily cash sales transactions should discuss this matter with a representative of a company selling cash registers.





# DAILY RECORD OF CASH RECEIVED AND PAID OUT

One of your basic records will be the *Daily Record of Cash Received and Paid Out* (see figure 1). This form is where you write down all cash and cheques received and cash paid out. When you make a deposit, add up the amounts received and the amounts paid out. The difference between these two totals should be equal to the cash and cheques on hand which you deposit in the bank. If they are not equal you have either made a mistake in recording the information, you have forgotten to record something, or there has been a mistake made in giving someone change. Any errors should be corrected right away. Once you have balanced your deposit

FIGURE 1

Note: See detailed example on page 8 for further explanation.

DAILY RECORD OF CASH RECEIVED			
Total Cash Received			
Date	Name or Invoice Number	Description	Amount



with your records write down the date and amount of the deposit on your Daily Record and then take the amount to the bank. Start a new Daily Record page every time after you make a deposit. Pages should be numbered.

In the Description column on the right side of the form, it is very important to record separately the amounts paid out for business purposes and the amounts which were taken out of the business for your own personal use.

You probably will find it necessary to have some cash on hand when you start a new business day. You can do this by holding back a small amount (always the same) from each deposit. How to account for the money which is not deposited in your bank account is shown in the detailed example on pages 8 and 9.

NUMBER _____			
Total Cash Paid Out			
Date	Name	Description	Amount

The following illustration will give you an idea about how the Daily Record is kept. Assume that Tom Winters starts a small business on May 29, 1974. He owns a few small cabins on a lake. His business involves renting cabins and boats and selling supplies to tourists and fishermen. Tom Winters writes out an invoice or sales slip for all sales. (Books of invoices or sales slips are available at any stationery supply store).

On May 29 he rents a cabin to H. Smith for five nights at \$10 a night. On May 30 he rents a boat to H. Smith for \$5 for the day. On the

Invoice 101	
<u>H. Smith</u>	<u>May 29, 1974</u>
Name	Date
<u>Toronto, Ontario</u>	
Address	
Cabin —	
5 nights at \$10	\$50.00
Total	\$50.00

Invoice 102	
<u>H. Smith</u>	<u>May 30, 1974</u>
Name	Date
<u>Toronto, Ontario</u>	
Address	
Boat —	
1 day	\$5.00
Total	\$5.00

same day he rents a cabin to B. Jones for one night for \$10 and sells him some supplies for \$4. The cash received in these two days is recorded on numbered sales invoices (see figure 2). There are two copies made of all invoices used. One copy of the invoice is kept by Tom for his own records while the other one is given to the customer. He recorded all of this information in his Daily Record (see figure 2A).

On May 30 Tom Winters paid \$2 in cash to ABC Ltd., for boat repairs and took \$10 for his own personal use. Both of these amounts came from the cash which he had received.

FIGURE 2

Invoice 103	
<u>B. Jones</u>	<u>May 29, 1974</u>
Name	Date
<u>Atwater, Ontario</u>	
Address	
Cabin —	\$10.00
night	
Total	<u>\$10.00</u>

Invoice 104	
<u>B. Jones</u>	<u>May 31, 1974</u>
Name	Date
<u>Atwater, Ontario</u>	
Address	
Supplies	\$4.00
Total	<u>\$4.00</u>

Tom had started business on May 30 with a change fund of \$25. On May 30 he decided to deposit in the bank all of his cash on hand except for \$25 which he would keep out for the next day's business. Tom added up his cash received and cash paid out columns. The difference in these totals was \$57 (\$69-\$12). Then he prepared a summary or cash balance. Since both the beginning and end

DAILY RECORD OF CASH RECEIVED				
TOTAL CASH RECEIVED				
Date	Name or Invoice No.	Description	Amount	
May 29	#101	Cabin	50.00	
May 30	#102	Boat	5.00	
May 30	#103	Cabin	10.00	
May 30	#104	Supplies	4.00	
			69.00	
SUMMARY				
Change fund beginning of period				
Add.: Total Cash received				
Less: Total Cash paid out				
Less: Change fund end of period				
Deposit made May 30, 1971				

FIGURE 2A



of period change funds were the same amount his records showed \$57 was available for deposit. This was equal to the cash on hand which he was going to deposit. Tom made up a deposit slip for \$57, wrote down the date and amount of the deposit in his records and took the money to the bank. His Daily Record (see figure 2A) on May 30 shows this story.

NUMBER 1				
TOTAL CASH PAID OUT				
Date	Name	Description	Amount	
May 30	ABC Ltd	Repairs	2.00	
May 30	T. Winters	Personal	10.00	
		Total	12.00	
			25.00	
			69.00	
			<u>94.00</u>	
			12.00	
			<u>82.00</u>	
			25.00	
			<u>57.00</u>	
			<u>57.00</u>	

In some cases a business will not use sales invoices. If the number of sales are few and sales invoices are not used the name of the person to whom the sale was made can be put in the column where the invoice number is recorded in the Figure 2A example. If sales for each day are numerous but small in dollar value, the use of a mechanical cash register may be the best way to keep track of total cash received. In this case the total cash received as shown on the cash register tape should be put in the column in place of the invoice or name.

FIGURE 3

MONTHLY RECORD OF BANK TRANSACTIONS			
CHEQUE NO.	DATE	NAME	DI

# MONTHLY RECORD OF BANK TRANSACTIONS

The *Daily Record of Cash Received and Paid Out* is kept for the purpose of balancing your deposit. However, to adequately control your cash you must not only know how much you have deposited but also what cheques have been issued and how much money remains in your bank account. For this purpose you must use another form called the *Monthly Record of Bank Transactions* (see figure 3). This is the record which shows all deposits you made and all cheques you issued for business during the month. The difference between these two totals is the cash balance in your bank account excluding any bank charges.

If your business is very small and you make few deposits and only issue a small number of cheques you could use as a record the cheque book which your bank will give you when you open an account instead of the form shown in figure 3.

MONTH:			
DESCRIPTION	CHEQUE	DEPOSIT	BALANCE

The first step is to record all deposits which you make. Show the date and amount of the deposit and the Daily Record number to which this deposit applies. The second step is to record all cheques issued. Record the cheque number, date, name of the person to whom the cheque was issued, a description of what the payment was for and the amount of the cheque. Every time you enter a deposit or cheque in this book you should calculate your new bank balance. Deposits are added to the previous balance. Cheques are subtracted from the previous balance. The balance at the end of one month should always be carried forward to the beginning of the next month and placed on the first line in the balance column.

The example of Tom Winters will illustrate the method of keeping this record. In the previous example he made a deposit of \$57 on May 30, 1974.

On May 30, 1974 Tom also issued the following cheques:

- (i) cheque number 1 to Mrs. A. Brown for cleaning cabins—\$10
- (ii) cheque number 2 to Linen Supply for bed sheets in the cabins—\$4
- (iii) cheque number 3 to Fix-it Co. Ltd. for repairs to boats—\$12.

To find how this information is recorded in the Monthly Record see figure 3A. The balance in his bank account is now \$31.



## MONTHLY RECORD OF BANK TRANSACTIONS

MONTH:

*May 1974*

Cheque No.	Date	Name	Description	Cheque	Deposit	Balance
		<i>Bank Balance forward</i>				<i>Nil</i>
<i>—</i>	<i>—</i>	<i>—</i>	<i>Daily Record of Cash received #1</i>		<i>57.00</i>	<i>57.00</i>
<i>1</i>	<i>May 30</i>	<i>Mrs. A. Brown</i>	<i>Cleaning Cabins</i>	<i>10.00</i>		<i>47.00</i>
<i>2</i>	<i>May 30</i>	<i>Linen Supply Co.</i>	<i>Cabin Supplies</i>	<i>4.00</i>		<i>43.00</i>
<i>3</i>	<i>May 30</i>	<i>Fix-it Co. Ltd.</i>	<i>Repairs</i>	<i>12.00</i>		<i>31.00</i>

# RECONCILING YOUR BANK ACCOUNT:

Shortly after the end of each month your bank will send you a bank statement showing you all the entries in your account during the month and the balance in your account at the end of the month. In most cases there will be differences between the balance shown by the bank and the balance shown in your records.

Differences between the bank statement and your records can result from the following:

- (1) The bank deducts from your account amounts other than cheques which you have issued. There might be a small monthly service charge or interest on bank loans etc.
- (2) You will probably find that you have recorded cheques which the bank has not yet put through your bank account. This could be due to the fact that the person to whom you gave the cheque did not cash it right away or because he cashed it at his own bank and his bank has not yet sent it to your bank. Under normal circumstances your bank will show these cheques on the next month's bank statement.
- (3) If a deposit is made after regular banking hours it will not appear on the bank statement until the next day. If this happens at the end of a month the deposit will appear in your records but not on the bank statement. This deposit will be shown on your next bank statement.
- (4) Everyone is human. The bank or your business could have made an error.

Because these differences can arise you should check the bank's records to your own Record of Bank Transactions every month and make any adjustments there. When you receive your bank statement shortly after the

month-end you should go back to the previous month and reconcile your bank account as follows:

- (1) Compare all of the transactions on the bank statement with your record and place a small tick mark beside all items that are the same.
- (2) Record any amounts shown by the bank but which are not in your own records. For example, a service charge deducted from your account would be recorded just as if it were a cheque except that there is no cheque number. You should record on your *Monthly Record of Bank Transactions* the date (as on the bank statement), name (name of bank), type of payment (service charge, etc.) and amount.
- (3) Once you are satisfied that your records are in agreement with the banks, calculate your new bank balance. Do not adjust your records for cheques and/or deposits which the bank has not yet recorded. Your records are correct. The bank should record these items on your next bank statement.
- (4) To ensure that your books are correct you should prepare a summary of these differences every month (i.e.: fig. 5 Bank Reconciliation). The balance on your bank statement, plus all deposits not recorded by the bank, less all cheques not recorded by the bank should be equal to the bank balance in your books at the end of every month. Cheques and deposits which do not appear on the current bank statement should be checked off the Bank Reconciliation referred to above when you receive your next bank statement.

To illustrate the reconciliation procedure, assume that Tom Winters receives the following bank statement for May 1974, from his bank (see figure 4). Cheques which have been cashed are returned with the bank statement.

Tom Winters			
BANK STATEMENT — May, 1974			
Cheques	Deposit	Date	Balance
10.00	57.00	May 30	43.00
4.00		May 31	47.00
1.00 sc		May 31	42.00
sc Service Charge			

FIGURE 4

On checking the May bank statement to his May Monthly Record (see figure 3A) Tom notices that the bank has deducted a \$1 service charge from his account and that the cheque issued to Fix-it Co. Ltd. for \$12 has not been cashed. Tom records the \$1 service charge on his Monthly Record. He knows that the cheque to Fix-it Co. Ltd. will probably be cashed at his bank in June and does not adjust his records for this amount. To ensure that his books are correct Tom writes up the following summary (see figure 5).



Bank Reconciliation — May 31, 1974	
Balance on bank statement	\$42.00
Less: Cheques not recorded on bank statement	12.00
	\$30.00
Balance in <i>Monthly Record of Bank Transactions</i>	\$31.00
Less: Bank service charge recorded in June	1.00
	\$30.00

FIGURE 5

## MONTHLY SUMMARY OF OPERATIONS

Up until now your records tell you how much you have received, how much you have spent and how much you still have. To obtain more useful information about your operations you should not only know how much but also how it was received and where it was spent. For this reason you should use a third form called a *Monthly Summary of Operations* (see figure 7). This record does not introduce new information regarding your business. It merely involves re-arranging and summarizing information which you already have in your *Daily Record of Cash Received and Paid Out* and your *Monthly Record of Bank Transactions*. It is not difficult to set up and continue this record but you should always be very careful with its preparation.

*The Monthly Summary of Operations* (see figure 6) is merely a wide book with many columns. The columns should be divided into three main headings. These are:

- (i) Income
- (ii) Expenses
- (iii) Personal

The income and expenses sections should be further divided into the types of income and expense which are typical of your business so that there is one column for each type. Once you have done this the next step is to go through your *Daily Record of Cash Received and Paid Out* and your *Monthly Record of Bank Transactions* for the month and write down the amount of each item of cash received and paid out and each cheque issued under the column heading which best describes it. It would be advisable to head up one column in each of the income and expense sections as "other" income and "other" expenses. Any small amounts received or spent which you do not expect to be repeated from month to month could be summarized in these columns.

Once you have recorded all transactions during the month each column should be totalled. Then you will know the source of money received and how it was spent. The total of the personal column will show you how much you took out of the business for your own personal use. To check that you have recorded everything in the *Monthly Summary of Operations* properly you should make sure that the total of all income columns less the total of all expense columns and the personal column is equal to the change in the bank balance in your records from the beginning to the end of the month.

The important thing to remember is that the headings used for each column should be those which best suit the needs of your own business.

The number and the type of income and expense columns required will vary with the type of business. Some businesses will require a book with more columns than other businesses. You may find that it will take a month or two of business before you can finally decide upon all of the column headings which you will require.

MONTHLY SUMMARY OF OPERATIONS

MONTH

Type I	Type II	Type III	Type IV	Income Description and Amount	Type I	Type II	Type III	Type IV	Type V	Expenses Description and Amount	Personal Description and Amount

FIGURE 6

DAILY RECORD OF CASH RECEIVED NUMBER 1									
TOTAL CASH RECEIVED					TOTAL CASH PAID OUT				
Date	Invoice	Descrip.	Amount	Date	Name	Descrip.	Amount		
May 29	#101	Cabin	50.00	May 30	ABC Ltd	Repairs	2.00		
May 30	#102	Boat	5.00	May 30	T. Winters	Personal	10.00		
May 30	#103	Cabin	10.00						
May 30	#107	Supplies	4.00						
		Total	69.00			Total	12.00		

(Figure 2A)

MONTHLY RECORD OF BANK TRANSACTIONS MONTH: <u>May 1974</u>						
Cheque No.	Date	Name	Description	Cheque	Deposit	Balance
—		—	Dr. of Cr. 1		57.00	57.00
1		Mrs. A. Brown	Cleaning Cabin 10.00			47.00
2		Linen Supply	Cabin Supplies 4.00			43.00
3		Fix-it Co.	Repairs 12.00			31.00

(Figure 3A)



MONTHLY SUMMARY OF OPERATIONS						MONTH: <u>May 1974</u>	
Cabin	Income Boat	Supplies	Cleaning	Expenses Cabin Supplies	Repairs	Personal	
50.00	5.00	4.00	10.00	4.00	2.00		10.00
10.00					12.00		
60.00	5.00	4.00	10.00	4.00	14.00	28.00	10.00

FIGURE 7

The illustrations shown on pages 22/23 will show you how Tom Winters prepared his *Monthly Summary of Operations* from his records. Note that the total of his expense columns and the total of his personal column is equal to the change in his bank account at the end and the beginning of the month as shown on the May *Monthly Record of Bank Transactions*.

In some cases, you may feel that the *Monthly Summary of Operations* does not provide you with enough detailed information. This problem is easily solved. Instead of using one page with many columns to summarize your results you can use a small book. Instead of putting all the amounts for similar types of income or expense in separate columns you should put them on a separate page in the book. On the same line that you put this amount you can put in other information such as date and the name from whom it was received or to whom it was paid. The totals of each page in the book will give you the same figures as the total of each column in the *Monthly Summary of Operations*. Another advantage of the book is that you can use it to record all transactions for the year

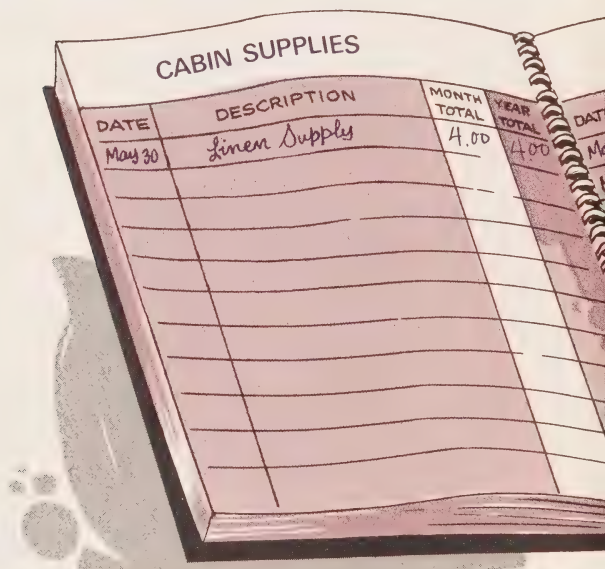


FIGURE 8

on one page with sub-totals after each month. Thus you get results for the month and for the year all in one place. The illustration which follows will give you an example of what this record looks like (see figure 8).

Total Income Accounts		
Cabin	\$60	
Boat	\$5	
Supplies	\$4	\$69
Less: Total Expense Accounts		
Cleaning	\$10	
Cabin Supplies	\$4	
Repairs	\$14	
Personal	\$10	\$38
		<u>\$31</u>
Bank Balance at end of Month		\$31
Less: Bank Balance at Beginning of Month		0
		<u>\$31</u>

[illegible]

# CREDIT SALES (ACCOUNTS RECEIVABLE)

If it is your normal business practice to sell goods for cash only but you do have a few customers or the odd occasion where it is good business to sell on credit and collect the money at a later date then you can keep business records similar to the records as shown in this booklet.

You will, however, require another record called an *Accounts Receivable Ledger* (see figure 9) which will show you exactly how much money other people owe you. In this book you should have one page for each customer.

On each page you should record at the time of a sale:

- (1) Customer's name
- (2) Customer's address
- (3) Customer's telephone number
- (4) Date of sale
- (5) Description of sale
- (6) Amount of sale
- (7) Balance owing

Whenever a partial or full payment is received you should record on the particular page:

- (1) Date of payment
- (2) New Balance if any

The total of all balances on each page will give the total amount owed to you at any point in time. The illustration will show you how to set up this record.

You should use a book in which pages can be placed and removed from time to time as they are required. For example if you had a page for someone who has no balance owing to you and with whom you do not expect to do business in the near future you could remove the page and keep it separately.

In this manner your book will not become unnecessarily cluttered. It would be an advantage to keep these pages in alphabetical order so that you can easily find any customer's record you may want. The removable pages can easily be re-arranged for new



names as they are entered in this record.

If you are using this method of recording credit sales you make your entry in the *Accounts Receivable Ledger* whenever you make a sale. Nothing is written in your other records other than marking “credit sale” on the invoice. When cash is received however, you enter the amount of cash received in your *Daily Record of Cash Received and Paid Out* just as if it were a sale and enter “received on account” in the Description column. The remainder of the recording process is no different from your normal cash transactions. In effect you are recording this sale, not when it is made, but only as cash is received.

If credit sales make up a large part of your sales then the system described in this booklet is probably not sufficient to meet your needs. The important figures for your purposes are not only how much cash was received but also how much is owed to you.

# ACCOUNTS RECEIVABLE LEDGER PAGE

Name \_\_\_\_\_ Telephone \_\_\_\_\_

Address \_\_\_\_\_

Date	Description	Sale	Payment	Balance

FIGURE 9

# ACCOUNTS PAYABLE

## (CREDIT PURCHASES)

On occasion you may request goods or require services which your supplier will not expect you to pay for on delivery. A short period after the goods have been delivered or the services have been provided your supplier will send you his invoice which he will expect you to pay within a certain period of time. The length of time which you have to pay is usually printed on the invoice. It may be ten days or fifteen days and in most circumstances it is no more than thirty days. You should watch carefully for the length of time allowed because in some cases you may get a discount and pay less if you pay within the time limit and in most cases your supplier will charge you interest when payment is not made on time. It is good business practice to compare invoices received each month to supplier's invoices received each month and then to supplier's monthly statement and check addition before you issue a cheque for the total balance due.

Any amounts which you owe other people are commonly referred to as your accounts payable. Maintaining control over these amounts does not require a new set of records but you should set up a good filing system for unpaid invoices and you should take great care to insure that all invoices are paid within the required period of time.

Whenever you receive an invoice from a supplier you should examine it carefully to insure that:

- (i) You have received the goods for which you are being charged. (Make sure the items listed on the delivery slips you signed for match the items listed on the invoice.)
- (ii) Prices are reasonable.
- (iii) Additions and other calculations are correct.

Once you are satisfied that you owe the amount shown on the invoice you should put

it into a file of unpaid invoices. A type of file which is often used for this purpose is called an accordian file (see figure 10). It can be purchased at most stores that sell stationery supplies. They are available with dividers which enable you to file each suppliers' invoice alphabetically. This is your file of unpaid invoices. The total of all these invoices will tell you how much money you owe others.

Whenever you pay an invoice you should:

- (1) Remove the invoice from the unpaid file and write the date paid and cheque number on it.
- (2) Record the cheque in your *Monthly Record of Bank Transactions* (see figure 3) in the same manner that you record other cheques.
- (3) File the invoice in another file (similar to the one for unpaid invoices) which contains all of your paid invoices.

Thus you now have two files one for unpaid invoices and another for paid invoices.

An important thing to remember when you buy on credit is that sooner or later you will have to pay for the goods or services which you have received. You should always plan ahead. Before you commit yourself to purchasing on credit and paying invoices at some time in the future you should be certain

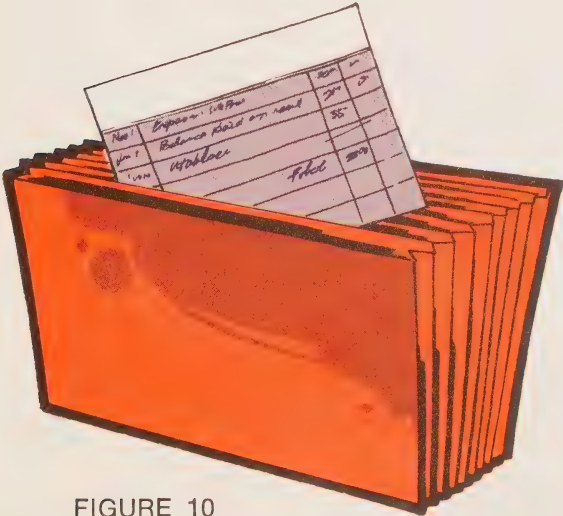


FIGURE 10

that you will have enough money. The records which have been developed in this book can help you. Your *Monthly Record of Bank Transactions* (see figure 3) will show you how much money you have at the moment and by studying your *Monthly Summary of Operations* (see figure 6) for a few of the more recent months you should be able to estimate how much you may receive and how much you will have to pay out within the next month or so.

## GENERAL

If you follow the procedures for basic record-keeping as outlined in this booklet you will have an adequate set of records capable of supplying you with information which will help you make some of your day by day decisions.

Standard books or journals are available in most stores that sell stationery supplies. These journals come in many sizes and shapes. You should have one book for each of your:

- (1) *Daily Record of Cash received and Paid Out*
- (2) *Monthly Record of Bank Transactions*
- (3) *Monthly Summary of Operations*

You will also be able to buy books of numbered invoices or sales slips with as many copies as you may require and with carbon paper between the copies, a loose-leaf binder and pages for your Accounts Receivable Ledger, and files for keeping your paid and unpaid invoices. When you open a bank account your bank will give you a deposit book and a cheque book. Whenever you need new ones the bank will give them to you.

You should never throw away or destroy your records, invoices, bank statements and other documents because you are required by law to keep them. Also, you may need proof of a business transaction at some future date or you may want to sell your business or apply



for a loan or grant and have to produce records for a number of years so that your business can be evaluated.

You should file all your records in an orderly manner so that you can look up any information which you may require in as short a period of time as possible. You will find it easier to locate information if it is filed alphabetically, numerically or in order of date.

Now that you have your records you should learn to understand what they say. As you gain experience and become familiar with the records you will find that they contain valuable information.

If you carefully review your *Monthly Summary of Operations* for each month or add them together for a number of months or a year they will show you exactly from where you received your money and how you spent it. Different months can be compared. A careful study may show you:

- (1) An idea of the profitability of your business in general.
  - (2) Which months or seasons are most profitable.
  - (3) Whether your business is growing or standing still.
  - (4) Ways of cutting expenses and so on.
- 

Based on what your records tell you about the past you can plan ahead by estimating what will happen in the future. This will help you make decisions such as:

- (1) Whether or not you will have enough cash to pay your bills.
- (2) How much money you can take out of the business for your own personal use.
- (3) Whether or not you will need a loan.

In making these analyses, however, there are certain things which you should keep in mind.

- (1) Your Accounts Receivable will eventually be recorded as income and your Accounts Payable will become expenses. You should consider this fact when studying the results of your business.
- (2) Amounts which you have recorded as being spent for your own personal use are not expenses of the business. These are amounts which you have taken from the business profits. It is a profitable business if you can keep the business going and still take out enough money to live comfortably.
- (3) You may have spent money on goods which you plan to sell at a profit at a future date. If you have goods on hand at the end of a month, the cost will be in your records, but there will be no income recorded until the goods are sold.
- (4) You may have spent money on certain items such as a building or equipment which will last more than one year. Your records will show that all the costs are deducted from the income in one period. In future years, however, you will earn income because of this item but your records will show no costs. To get a better idea of what profits are really like you should estimate how long the item will last and for the purpose of analyzing your operating results you should calculate how much it is really costing you for each month or each year. Only this amount should be considered as the cost of the item for each period that you have it. For example, if an item costs \$2400 and you expect it to last for two years the actual expense is \$1200 for each year or \$100 for each month.

You should realize, however, that for more accurate and complete financial statements at least once a year, you may have to turn for help to a trained accountant. Your records will supply him with the information he needs to work on.



